

13 March 2024

Financial Services | Banks

## Bank BJB (BJBR IJ)

## Neutral (from Buy)

**D/G To NEUTRAL With a Lower TP**

Target Price (Return): IDR1,300 (+9%)  
 Price (Market Cap): IDR1,195 (USD801m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (IDR/USD) 1,990m/0.12m

- **Downgrade to NEUTRAL from Buy, with new IDR1,300 TP from IDR1,500, 9% upside and c.9% yield.** Bank BJB expects to see higher loans growth and lower cost of credit (CoC) in 2024. The bank's collaboration with other regional banks' Banking Business Group (KUB) has been approved by the authorities, which will allow them to share resources and improve efficiency. Despite the lower-than-expected earnings in 2023, BJBR intends to maintain a consistent nominal dividend payment. As its ESG score is 3.0, we ascribe a 0% ESG premium/discount to its TP.
- **Expect greater earnings growth in 2024.** BJBR expects FY24F loans growth to be at least 8% YoY, which is faster than FY23 loans growth of 7.5%. CoC is also estimated to fall to be around 5% – in the range of 4.75% to 5.25% – in FY24F, from 6.0% in FY23. Management guided for further synergy to be generated via the BJBR Banking Business Group (KUB). Bank Bengkulu became an official member of the BJBR KUB in 1Q24.
- **KUB update.** The BJBR and Bank Bengkulu KUB has been approved by the Financial Services Authority (OJK). The clearance of this transaction demonstrates BJBR's trust in the ongoing strategic collaboration with other regional development banks or BPD (Bank Jambi, Bank Sultra, Bank Maluku Malut). KUB banks' collaboration is estimated to increase efficiency.
- **4Q23 below expectations.** 4Q23 earnings fell 48.7% QoQ (-43.4% QoQ) to IDR262bn, bringing FY23 earnings to IDR1,681bn (-25.2% YoY), meeting 92% and 86% of our and consensus full-year projections. It is worth noting that 4Q23 PPOP climbed marginally to IDR800bn (+0.5% QoQ). However, 4Q23 earnings were hurt by greater provision expense, which grew to IDR388bn (+131% QoQ) in 4Q23. CoC rose to 0.6% in FY23 from 0.2% in 9M23.
- **To maintain nominal dividend, increase payout ratio.** Despite decreasing earnings, BJBR intends to retain a nominal dividend payout at least equal to that of the preceding year. As a result, BJBR proposes to distribute at least 55% of FY23 earnings as dividends, demonstrating its commitment to returning profits to shareholders. It is worth mentioning that the FY23 dividend payout ratio was 50%.
- **Revisit our forecasts, lower TP.** We lower our FY24F-25F earnings by 11% and 13%, driven by slower loan growth estimates and slightly higher provision expense. We also reduce our GGM-based TP to IDR1,300 (from IDR1,500), implying 0.8x and 0.7x FY24F-25F P/BV. According to our calculations, BJBR will provide ROE of 12.6% and 13.0% for FY24F-25F.

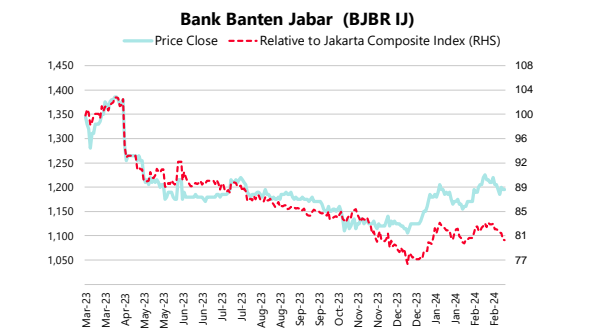
### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.9	2.1	6.2	1.7	(10.8)
Relative	2.4	0.1	3.1	(4.9)	(19.7)
52-wk Price low/high (IDR)	1,105 – 1,385				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Reported net profit (IDRb)	2,186	1,584	2,018	2,199	2,405
Net profit growth (%)	9.0	(27.5)	27.4	9.0	9.4
Recurring net profit (IDRb)	2,197	1,602	2,035	2,215	2,422
Recurring EPS (IDR)	226.55	165.18	209.84	228.47	249.76
BVPS (IDR)	1,522.14	1,604.65	1,687.03	1,788.86	1,671.77
DPS (IDR)	107.54	113.45	110.05	125.16	363.20
Recurring P/E (x)	5.27	7.23	5.69	5.23	4.78
P/B (x)	0.79	0.74	0.71	0.67	0.71
Dividend Yield (%)	9.0	9.5	9.2	10.5	30.4
Return on average equity (%)	15.7	10.4	12.6	13.0	14.3

Source: Company data, RHB

### Overall ESG Score: 3.0 (out of 4)

#### E: GOOD

BJBR aims to reduce the use of paper in its operations by developing online systems such as the SP2DOnline, E-Samsat, and E-Form, which enables its customers to use online forms for applications. BJBR's operations division also has other similar programs.

#### S: GOOD

Infrastructure development is a material issue for the bank, as improvements in the quality of life and welfare of the surrounding communities would indirectly have a positive impact on the group, such as better access to its products and services, and a higher number of customers.

#### G: GOOD

The composition of the corporate governance body is in line with diversity policies. Its Boards of Commissioners and Directors are in line with the recommendations of the Financial Services Authority, in relation to the diversity of their compositions.

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## Financial Exhibits

Asia	Financial summary (IDR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	EPS	225.47	163.36	208.11	226.74	248.03
Financial Services	Recurring EPS	226.55	165.18	209.84	228.47	249.76
<b>Bank BJB</b>	DPS	107.54	113.45	110.05	125.16	363.20
BJBR IJ	BVPS	1,522.14	1,604.65	1,687.03	1,788.86	1,671.77
Neutral						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	5.27	7.23	5.69	5.23	4.78
P/BV backed by GGM. Assumptions include:	P/B (x)	0.8	0.7	0.7	0.7	0.7
i. COE of 12.6%;	Dividend Yield (%)	9.0	9.5	9.2	10.5	30.4
ii. ROE of 11%;						
iii. 2% long-term growth.						
	<b>Income statement (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key drivers</b>	Interest income	13,636	14,258	15,238	16,290	17,422
i. Loan growth;	Interest expense	(5,228)	(7,195)	(7,563)	(8,088)	(8,661)
ii. Lower cost of funds.	<b>Net interest income</b>	<b>8,408</b>	<b>7,064</b>	<b>7,675</b>	<b>8,202</b>	<b>8,761</b>
iii. Downside risks:	Non interest income	1,640	1,922	1,994	2,070	2,150
	<b>Total operating income</b>	<b>10,048</b>	<b>8,986</b>	<b>9,669</b>	<b>10,271</b>	<b>10,911</b>
	Overheads	(6,975)	(6,091)	(6,395)	(6,715)	(7,051)
<b>Key risks</b>	<b>Pre-provision operating profit</b>	<b>3,073</b>	<b>2,895</b>	<b>3,273</b>	<b>3,556</b>	<b>3,860</b>
Upside risks:	Loan impairment allowances	(224)	(746)	(557)	(601)	(644)
i. Higher-than-expected loan growth;	Other exceptional items	(13)	(22)	(22)	(22)	(22)
ii. Improving margins;	<b>Pre-tax profit</b>	<b>2,836</b>	<b>2,126</b>	<b>2,694</b>	<b>2,933</b>	<b>3,194</b>
iii. Lower-than-expected credit costs.	Taxation	(590)	(445)	(673)	(733)	(799)
	Minority interests	(59)	(97)	(2)	(1)	9
Downside risks:	<b>Reported net profit</b>	<b>2,186</b>	<b>1,584</b>	<b>2,018</b>	<b>2,199</b>	<b>2,405</b>
i. Saturating market and weakening loan growth;	<b>Recurring net profit</b>	<b>2,197</b>	<b>1,602</b>	<b>2,035</b>	<b>2,215</b>	<b>2,422</b>
i. Increasing cost of funds;						
ii. Lack of positive catalysts.						
	<b>Profitability ratios</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Company Profile</b>	Return on average assets (%)	1.3	0.9	1.1	1.1	1.1
Bank BJB is a regional bank that focuses its operations in West Java and is majority owned by the Government of West Java (total of 75.4%). The bank offers varied products with the majority coming from the consumer segment, especially for the public sector. Other segments also include micro, commercial and <i>shariah</i> .	Return on average equity (%)	15.7	10.4	12.6	13.0	14.3
	Return on IEAs (%)	8.5	8.2	8.6	8.7	8.6
	Cost of funds (%)	3.5	4.4	4.6	4.6	4.5
	Net interest spread (%)	5.1	3.8	4.0	4.0	4.0
	Net interest margin (%)	5.3	4.1	4.3	4.4	4.3
	Non-interest income / total income (%)	16.3	21.4	20.6	20.2	19.7
	Cost to income ratio (%)	69.4	67.8	66.1	65.4	64.6
	Credit cost (bps)	20.5	62.0	41.6	40.4	40.2
	<b>Balance sheet (IDRb)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total gross loans	115,756	125,078	143,041	154,245	166,334
	Other interest earning assets	54,920	51,089	37,145	41,728	44,730
	Total gross IEAs	170,675	176,168	180,186	195,974	211,065
	Total provisions	(1,803)	(2,145)	(1,820)	(1,566)	(1,291)
	Net loans to customers	113,964	122,947	141,236	152,694	165,059
	Total net IEAs	168,873	174,023	178,366	194,407	209,773
	Total non-IEAs	12,369	14,273	14,986	15,736	16,522
	Total assets	181,241	188,295	193,353	210,143	226,296
	Customer deposits	135,652	139,236	141,819	155,863	171,305
	Other interest-bearing liabilities	26,165	24,112	25,317	26,583	27,912
	Total IBLs	161,817	163,347	167,136	182,446	199,217
	Total non-IBLs	4,678	9,499	9,974	10,473	10,997
	Total liabilities	166,495	172,846	177,110	192,919	210,213
	Share capital	4,443	4,443	4,443	4,443	4,443
	Shareholders' equity	14,759	15,559	16,358	17,345	16,210
	Minority interests	(13)	(110)	(116)	(121)	(128)
	<b>Asset quality and capital</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	CET-1 ratio (%)	8.0	7.5	6.9	6.5	6.1
	Tier-1 ratio (%)	10.7	10.0	9.1	8.5	8.0
	Total capital ratio (%)	12.7	12.0	10.9	10.3	9.7

Source: Company data, RHB

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Figure 1: BJBR's FY23 financial results highlights

INCOME STATEMENT (IDRbn)	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	YoY	FY23 /RHB	FY23 /Cons
Interest Income	3,757	3,592	3,749	4.4%	-0.2%	13,636	14,258	4.6%		
Interest Expense	1,539	1,813	1,920	5.9%	24.7%	5,228	7,195	37.6%		
<b>Net Interest Income</b>	<b>2,218</b>	<b>1,779</b>	<b>1,830</b>	<b>2.8%</b>	<b>-17.5%</b>	<b>8,408</b>	<b>7,064</b>	<b>-16.0%</b>		
Non-Interest Income	345	629	451	-28.3%	30.7%	1,572	1,827	16.2%		
<b>Total Operating Income</b>	<b>2,563</b>	<b>2,408</b>	<b>2,281</b>	<b>-5.3%</b>	<b>-11.0%</b>	<b>9,980</b>	<b>8,891</b>	<b>-10.9%</b>		
Operating Expense	2,009	1,612	1,558	-3.3%	-22.4%	6,895	6,067	-12.0%		
<b>PPOP</b>	<b>554</b>	<b>796</b>	<b>800</b>	<b>0.5%</b>	<b>44.3%</b>	<b>3,085</b>	<b>2,901</b>	<b>-6.0%</b>		
Provision Expense	(80)	168	388	131.0%	-585.0%	211	746	253.6%		
<b>Operating Profit</b>	<b>634</b>	<b>628</b>	<b>412</b>	<b>-34.5%</b>	<b>-35.1%</b>	<b>2,874</b>	<b>2,155</b>	<b>-25.0%</b>	<b>94%</b>	<b>87%</b>
Non-Operating Income/Expense	0	(6)	(12)	100.0%		(19)	(30)	57.9%		
<b>Profit Before Tax</b>	<b>634</b>	<b>622</b>	<b>400</b>	<b>-35.8%</b>	<b>-37.0%</b>	<b>2,855</b>	<b>2,125</b>	<b>-25.6%</b>		
Tax Expense	152	112	138	23.2%	-9.2%	590	445	-24.6%		
<b>Net Profit</b>	<b>462</b>	<b>510</b>	<b>262</b>	<b>-48.7%</b>	<b>-43.4%</b>	<b>2,245</b>	<b>1,680</b>	<b>-25.2%</b>	<b>92%</b>	<b>86%</b>
<b>BALANCE SHEET (IDRbn)</b>	<b>FY22</b>	<b>9M23</b>	<b>FY23</b>	<b>QoQ</b>	<b>YoY</b>					
Loan	115,756	124,986	125,078	0.1%	8.1%					
Deposit	121,749	130,857	126,419	-3.4%	3.8%					
CASA	51,310	55,301	52,536	-5.0%	2.4%					
Time Deposits	70,439	75,556	73,883	-2.2%	4.9%					
<b>RATIOS</b>	<b>FY22</b>	<b>9M23</b>	<b>FY23</b>							
ROAE (%)	15.5%	12.0%	11.1%							
NIM (%)	5.9%	4.9%	4.9%							
CoC (%)	0.1%	0.2%	0.6%							
CASA (%)	42.1%	42.3%	41.6%							
LDR (%)	95.1%	95.5%	87.9%							
CIR (%)	69.1%	68.2%	69.0%							
NPL (%)	1.2%	1.3%	1.4%							
Coverage (%)	124.3%	114.7%	113.5%							
CAR (%)	19.2%	19.6%	20.1%							

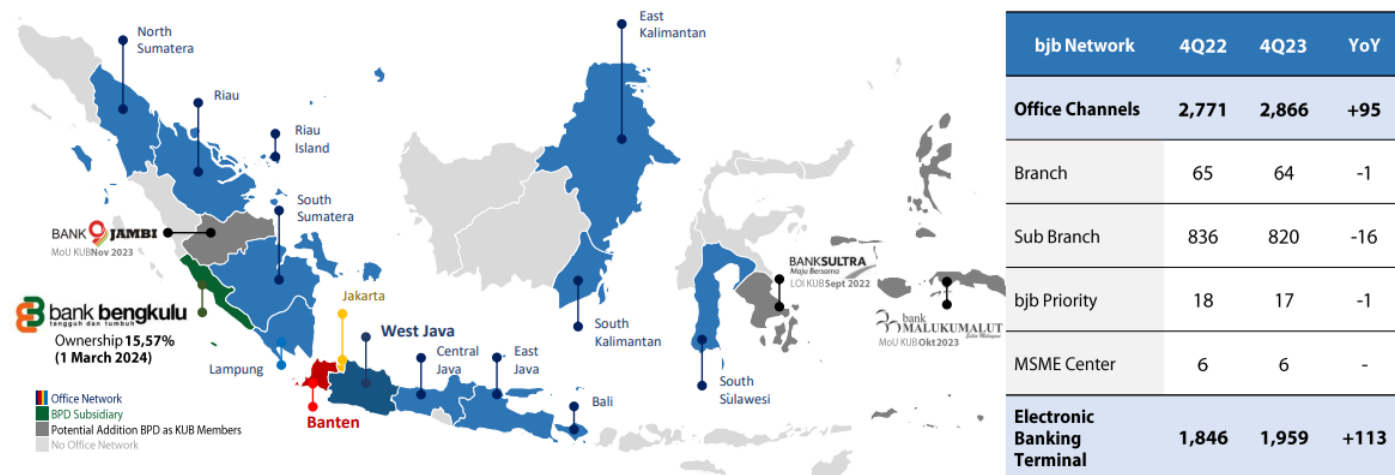
Source: Company data, RHB

Figure 2: FY23 &amp; FY24 guidance, FY23 realisation

(%)	FY23 Realisation	2023 Guidance	2024 Guidance
Loan growth	7.5	10.0 +/- 1.0	>= 8.0
LDR	87.5	<= 92.0	<= 92.0
NIM	4.9	4.75 +/- 0.25	>= 4.0
COF	4.3	4.5 +/- 0.25	4.5 +/- 0.25
NPL Coverage ratio	113.5	110 - 120	110 - 120
Gross NPL	1.35	1.2 +/- 0.1	1.3 +/- 0.1
CoC	0.6	0.2 +/- 0.1	0.5 +/- 0.25
CASA ratio	41.6	40 +/- 5	40 +/- 5

Source: Company data, RHB

Figure 3: Among local regional banks, BJBR has the largest bank network



Source: Company data, RHB

Figure 4: Revised forecasts

	RHB previous estimates			RHB revised estimates			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Net Interest Income	8,942	9,617	N/A	7,675	8,202	8,761	-14.2%	-14.7%	N/A
Operating Income	10,688	11,424	N/A	9,669	10,271	10,911	-9.5%	-10.1%	N/A
PPOP	3,577	3,957	N/A	3,273	3,556	3,860	-8.5%	-10.1%	N/A
Provision	533	577	N/A	557	601	644	4.7%	4.1%	N/A
Net Income	2,271	2,524	N/A	2,023	2,201	2,386	-10.9%	-12.8%	N/A
Loans	137,646	145,733	N/A	135,084	145,891	157,562	-1.9%	0.1%	N/A
Loans Growth	12.0%	5.9%	N/A	8.0%	8.0%	8.0%			
EPS	235	261	N/A	209	227	246	-11.1%	-12.9%	N/A
EPS Growth	26.4%	11.0%	N/A	13.7%	8.8%	8.4%			
BVPS	1,601	1,720	N/A	1,675	1,776	1,659	4.6%	3.3%	N/A
DPS	111	141	N/A	110	125	363	-1.3%	-11.1%	N/A
ROE	15.2%	15.7%	N/A	12.7%	13.1%	14.2%			

Source: Company data, RHB

Figure 5: Gordon Growth valuation

Cost of Equity	12.6%
Risk-Free Rate (Rf)	6.4%
Beta (x)	1.1
Expected Market Return (Rm)	12.0%
Risk Premium (Rm-Rf)	5.6%
Sustainable Growth Rate (SGR)	2.0%
Sustainable ROE (%)	11.0%
Dividend Payout Ratio (%)	55.0%
Sustainable ROE (%)	11.0%
Implied PBV (x)	0.9
BVPS Average FY24E (IDR)	1,611
Premium /discount on ESG	0
TP Fair Value (IDR)	1,300

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

BJBR's total emissions fell 21.9% YoY in 2022, with the biggest drop in scope 1 gas emissions, which include automobiles, electric power generators, air conditioner freon, paper, and ink.

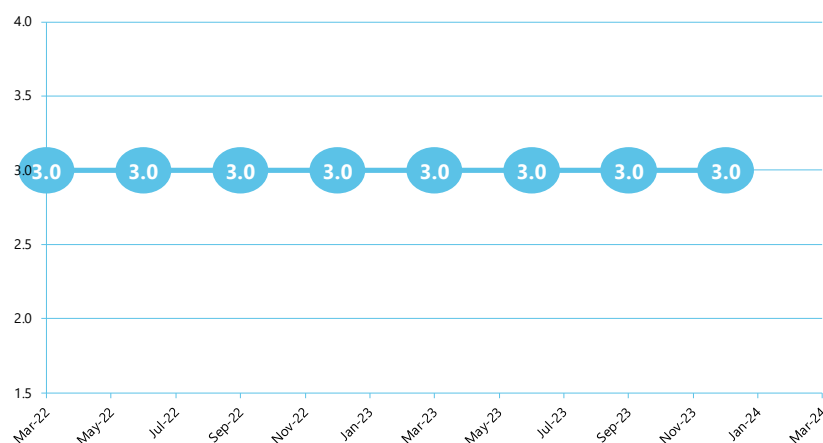
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	16,212	10,660	na
Scope 2	4,775	5,985	na
Scope 3	5,420	3,979	na
Total emissions	26,407	20,624	na

Source: Company data, RHB

## Latest ESG-Related Developments

- Emission reduction programme through Corporate Social Responsibility (CSR) initiative, "tree planting" (33,000 mangrove seeds, 23,000 trees planted), which has been implemented since 2019.
- Empowering MSME's (BJBR debtors or local communities) to boost their business capacity, improve their digital marketing, and create new entrepreneurs by assisting them with their business activities or giving training/seminars.
- BJBR participates in the Carbon Exchange (IDXCarbon) by purchasing 4,870 tCO<sub>2</sub>e carbon credits as part of its transition to a carbon-neutral corporation.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-26	Buy	1,500	1,215
2023-05-10	Buy	1,600	1,215
2023-02-28	Buy	1,800	1,320
2022-10-04	Buy	1,800	1,360
2021-10-26	Buy	1,900	1,430
2021-07-27	Buy	1,900	1,250
2021-04-28	Buy	2,050	1,390
2020-07-29	Buy	1,215	965
2020-04-28	Neutral	810	800
2020-03-02	Buy	1,200	885
2019-07-26	Sell	1,400	1,615
2019-07-12	Sell	1,400	1,690
2019-04-29	Sell	1,400	2,000
2018-10-26	Sell	1,400	1,805
2018-10-15	Sell	1,400	1,920

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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